

Message Text

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DEPARTMENT PASS FEDERAL RESERVE BOARD

E.O. 11652: N/A
TAGS: EFIN, UK
SUBJECT: PRESS COMMENT ON CHANCELLOR HEALEY'S STATEMENT
ON STERLING BALANCES

REF: LONDON 0450

1. QUALITY PRESS HEADLINED CHANCELLOR'S STATEMENT IN FAC-
TUAL WAY, (FOR DETAILS SEE REFTEL), MOST PRESS HIGHLIGHT-
ING 3 MAJOR ELEMENTS IN THE AGREEMENT: 1) IT IS INTEND-
ED TO AVOID A REPETITION OF HEAVY PRESSURE ON STERLING
FROM WITHDRAWALS BY OFFICIAL HOLDERS, 2) THE PLAN IS TO
ENCOURAGE AN ORDERLY REDUCTION IN OFFICIAL STERLING BY
OFFERING A NEW FORM OF SECURITY DENOMINATED IN FOREIGN
CURRENCIES, AND 3) IT REDUCES STERLING'S ROLE AS A RESERVE
CURRENCY.

2. INTERPRETIVE-HISTORICAL COMMENTARY ARTICLES IN FINAN-
CIAL TIMES, TIMES, GUARDIAN AND TELEGRAPH INDICATE THE
AGREEMENT COULD RESULT IN AN UNFAMILIAR SET OF PROBLEMS,
IE, HOW TO DEAL WITH UNWANTED INFLOWS ACROSS THE EXCHANGES
OR TO MANAGE A GILTS MARKET WHOSE ENTHUSIASM COULD GET
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OUT OF HAND. ONE OPTION SEEN IS TO ALLOW MONEY MARKET
INTEREST RATES TO FALL IN RESPONSE TO ANY INFLOW, WHILE
MAINTAINING STEADY CONDITIONS AND YIELDS ON GOVERNMENT
BONDS. ANTHONY HARRIS IN FT MAKES ABOVE POINTS AND GIVES
CONSIDERABLE CREDIT TO HAROLD LEVER FOR THIS REMARKABLE
ACHIEVEMENT WHILE DAVID BLAKE IN TIMES SEES SUN SETTING ON
STERLING BALANCES, WITH THE CURRENT AGREEMENT BEING A

CLEAR IMPROVEMENT OVER EARLIER ONES, WITH THE UK COMMITTED TO ENDING STERLING'S RESERVE CURRENCY ROLE.

3. FRANK VOGL OF TIMES FROM WASHINGTON QUOTES UNDER SECRETARY YEO AS SAYING AGREEMENT WOULD PAVE THE WAY FOR A FUNDAMENTAL LONG-TERM SOLUTION AND ELIMINATE ANY INSTABILITY THAT MIGHT ORIGINATE FROM FLUCTUATIONS IN LEVELS OF STERLING BALANCES.

4. EDITORIAL COMMENT TAKES DIFFERING LINES, REPRODUCED BELOW:

THE FINANCIAL TIMES

A LONG-TERM MEASURE. THE NEW \$3BN. CREDIT FACILITY WHICH IS BEING MADE AVAILABLE TO THIS COUNTRY TO FINANCE ANY FURTHER REDUCTION IN OFFICIAL STERLING BALANCES IS, AS MR. HEALEY HINTED YESTERDAY, LARGELY THE RESULT OF ENLIGHTENED SELF-INTEREST ON THE PART OF THOSE GOVERNMENTS WHICH ARE HELPING TO PROVIDE IT. THEY RECOGNIZE, NO DOUBT, THAT LARGE FLUCTUATIONS IN FOREIGN HOLDINGS OF STERLING MAY DISRUPT BRITAIN'S DOMESTIC ECONOMIC POLICIES -- EVEN IF FLUCTUATIONS IN OFFICIAL ATTITUDES TOWARDS THE BALANCES ARE BASICALLY RESPONSIBLE FOR SUCH DISRUPTION. BUT THEY ARE EVEN MORE KEENLY AWARE OF THE FACT THAT HOT MONEY MOVEMENTS OF THIS KIND UPSET THE WORKING OF THE INTERNATIONAL FINANCIAL SYSTEM. THE CHANGE THEY ARE SEEKING TO BRING ABOUT IS ESSENTIALLY LONG TERM RATHER THAN IMMEDIATE. THEY ARE TAKING SERIOUSLY THE GOVERNMENT'S ASSERTION THAT IT WISHES TO ACHIEVE "AN UNCLASSIFIED

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ORDERLY REDUCTION IN THE ROLE OF STERLING AS A RESERVE CURRENCY."

IT IS TRUE OF COURSE THAT THE PROVISION OF THIS NEW

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FACILITY WILL TEND TO INCREASE CONFIDENCE IN STERLING AT
ONCE. BUT THERE IS NO SCOPE FOR RELAXING DOMESTIC POLICY
TO MATCH. THE ACCEPTANCE OF STRICT TERMS FROM THE INTER-
NATIONAL MONETARY FUND -- THE STRICTNESS MAY NOT YET HAVE
BEEN COMPLETELY UNDERSTOOD BY TRADE UNION LEADERS -- WAS
A NECESSARY CONDITION NOT ONLY OF THE FUND LOAN BUT OF
THIS NEW FACILITY TOO.

EXCHANGE RATE. THE IMMEDIATE POLICY QUESTION CEN-
TRES ON THE LEVEL OF THE EXCHANGE RATE. THE TWO CREDITS
THAT HAVE NOW BEEN ARRANGED WILL DO MUCH TO RESTORE CON-
FIDENCE IN STERLING. ALTHOUGH THE BALANCE OF CURRENT
PAYMENTS WILL NOT BE OUT OF THE RED FOR SOME TIME TO
COME, THEREFORE, A REVERSAL OF LEADS AND LAGS IN THE TIM-
ING OF COMMERCIAL PAYMENTS COULD PRODUCE A SIZEABLE CAPI-
TAL INFLOW WELL IN ADVANCE. LEFT TO ITSELF, THE EX-
CHANGE RATE IS MUCH MORE LIKELY TO RISE THAN TO FALL.
WHEN ONE CONSIDERS THE FACT THAT THE HIGH LEVEL OF IN-
FLATION WHICH IS LIKELY TO PERSIST DURING MUCH OF THIS
YEAR IS LARGELY DUE TO THE EFFECT OF A SHARPLY FALLING
EXCHANGE RATE ON IMPORT PRICES, ONE CAN SEE THE TEMPTA-
TIONS TO LET THE RATE BE PULLED UP.

BUT THIS WOULD BE A MISTAKE. THE GOVERNMENT'S WHOLE
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ECONOMIC STRATEGY RESTS ON THE NEED TO SECURE A TRANS-
FER OF RESOURCES FROM PUBLIC AND PRIVATE CONSUMPTION INTO
CAPITAL INVESTMENT AND THE BALANCE OF PAYMENTS. THIS
IMPLIES AS LARGE A FALL IN LONG-TERM INTEREST RATES AS IS
COMPATIBLE WITH PRUDENT FINANCING OF THE BORROWING RE-
QUIREMENT AND AN EXCHANGE RATE WHICH WILL KEEP BRITISH EX-
PORTS COMPETITIVE -- SOMETHING AROUND \$1.70, SAY, PERHAPS
DROPPING SOMEWHAT DURING THE COURSE OF THE YEAR IN LINE
WITH OUR RELATIVELY RAPID RATE OF INFLATION. AN INCREASE
IN DEMAND FOR STERLING SHOULD BE USED FOR BUILDING UP THE
RESERVE AND REPAYING DEBT -- THOUGH THE GOVERNMENT IS NOW
PRESUMABLY ALIVE TO THE RISKS OF PAYING OFF LONG-TERM
DEBT WITH WHAT MAY BE SHORT-TERM DEPOSITS.

POLITICAL TEST. A SUDDEN REVIVAL IN DEMAND FOR STERLING MIGHT WELL RAISE SOME EARLY TECHNICAL PROBLEMS WHICH ARE ALREADY BEING STUDIED, ABOUT INSULATING DOMESTIC MONETARY MANAGEMENT FROM ITS EFFECTS. THE MAJOR PROBLEM, HOWEVER, IS POLITICAL RATHER THAN TECHNICAL AND WILL BECOME ACUTE WHEN THE BALANCE OF PAYMENTS BEGINS TO MOVE BACK INTO SURPLUS. THE GOVERNMENT'S DETERMINATION TO PHASE OUT THE ROLE OF STERLING AS A RESERVE CURRENCY WILL THEN BE TESTED MORE SEVERELY THAN IT IS NOW, WHEN THE BITTER EXPERIENCE OF LAST YEAR IS STILL FRESH. AS THE LIBERAL SPOKESMAN, MR. PARDOE, REMARKED YESTERDAY, SUCCESSIVE GOVERNMENTS HAVE ANNOUNCED THEIR INTENTION OF DOING THIS BUT HAVE TENDED TO FORGET IT WHEN THE CIRCUMSTANCES WHICH PRODUCED THE INTENTION ALTER.

WHAT MR. HEALEY HAD TO SAY YESTERDAY ABOUT USING A BUILD-UP OF PRIVATE BALANCES TO FINANCE A PAYMENTS DEFICIT IS ENCOURAGING, AND THE OFFER OF MEDIUM-TERM FOREIGN CURRENCY BONDS TO OFFICIAL HOLDERS -- THEY WILL MATURE AS NORTH SEA OIL IS PRODUCING A LARGE BUT TEMPORARY IMPROVEMENT IN THE BALANCE OF PAYMENTS -- SUGGESTS THAT THIS TIME THE INTENTION IS INDEED SERIOUS. WHEN THE REAL TEST COMES, WHATEVER THE COLOUR OF THE GOVERNMENT, THIS GOOD INTENTION MUST NOT BE ALLOWED TO FADE AWAY.

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THE TIMES

THE FUNDAMENTALS REMAIN. THE NEW SAFETY NET SCHEME FOR STERLING ANNOUNCED FROM BASLE ON MONDAY NIGHT IS NOT THE MILLENNIUM. BUT IT IS A THOROUGHLY SENSIBLE MEASURE TO DEAL WITH A REAL, THOUGH LIMITED, PROBLEM. IT IS ALSO SOMETHING OF A MODEST TRIUMPH, BOTH FOR THE PRIME MINISTER WHO LAST OCTOBER PUBLICLY PROCLAIMED HIS INTENTION TO SECURE SUCH AN ARRANGEMENT OVER THE HEADS OF A SCEPTICAL, EVEN HOSTILE TREASURY AND BANK OF ENGLAND, AND FOR CONSTRUCTIVE INTERNATIONAL COOPERATION.

THE CURSE OF THE STERLING BALANCES HAS BEEN THAT WHEN THEY WERE CAUSING TROUBLE AND THE POUND WAS WEAK, AS EITHER A CAUSE OR A CONSEQUENCE, NOTHING COULD BE DONE ABOUT THEM, AND THAT WHEN THE POUND WAS STRONG NO ONE WAS MINDED TO DO ANYTHING ABOUT THEM. THIS DEADLOCK HAS BEEN BROKEN, PARTLY BY THE GREATER REALISM OF GOVERNMENT ECONOMIC POLICIES AND PARTLY BY THE POLITICAL WILL AND FARSIGHTEDNESS OF CHANCELLOR SCHMIDT, PRESIDENT FORD AND OTHERS WHO UNDERSTOOD AND HEHEDED MR. CALLAGHAN'S ARGUMENT THAT FINANCIAL STABILIZATION IN BRITAIN MUST PROCEED.

THERE IS NO INDISPUTABLE HISTORICAL EVIDENCE THAT THE STERLING BALANCES -- BEING MONEY HELD IN STERLING DEPOSITS AND SHORT-TERM STERLING ASSETS BY FOREIGNERS -- EVER HAVE BY THEMSELVES CAUSED ANY ECONOMIC DAMAGE TO

BRITAIN; AND THEIR ACCUMULATION AND MANAGEMENT HAS AT

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TIMES BEEN A SOURCE OF BOTH VALUABLE SUPPORT TO THE BAL-
ANCE OF PAYMENTS AND SIGNIFICANT INVISIBLE EARNINGS OF
FOREIGN EXCHANGE BY THE CITY. BUT THE BELIEF THAT THESE
BALANCES, WHICH COULD ALWAYS IN THEORY BE WITHDRAWN AT
SHORT NOTICE, HUNG LIKE DAMOCLES' SWORD OVER THE EX-
CHANGE VALUE OF THE POUND WAS ITSELF A SOURCE OF NER-
VOUSNESS: IT TENDED TO MAGNIFY THE EFFECTS OF ANY WEAK-
ENING OF CONFIDENCE IN THE POUND ARISING FROM OTHER CAUSES

THE STERLING BALANCES HAVE ALSO PROVIDED A WHIPPING
BOY FOR THOSE WHO WISHED TO EXPLAIN AWAY ADVERSE CON-
SEQUENCES OF WEAK GOVERNMENT POLICIES AND POOR IN-
DUSTRIAL PERFORMANCE. THEY HAVE ALSO LENT A SUPERFICIAL
PLAUSIBILITY TO THE ARGUMENT THAT INTERNATIONAL CAPITAL-
ISM (SOMEWHAT ODDLY OPERATING THROUGH
THE MANAGEMENT OF THE NATIONAL RESERVES OF OTHER, FRE-
QUENTLY SOCIALIST, GOVERNMENTS) EXERCISED SOME OBLIQUE
FINANCIAL VETO OVER THE CONDUCT OF BRITAIN'S DOMESTIC AF-
FAIRS WHEN LABOUR GOVERNMENTS SOUGHT TO IMPLEMENT THEIR
ELECTION MANIFESTOS.

THE IMMEDIATE REMOVAL OF ANY SUBSTANTIAL THREAT TO
THE POUND FROM ANY SWITCHING OF STERLING RESERVES HELD BY
OTHER COUNTRIES AND THE EVENTUAL REMOVAL OF THE BALANCES
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THEMSELVES, UNDER THE PROPOSED PROGRESSIVE CONVERSION OF THE BALANCES INTO BRITISH GOVERNMENT SECURITIES DENOMINATED IN FOREIGN CURRENCY SHOULD HELP BY REMOVING BOTH THE NERVOUSNESS AND THE EXCUSES FOR THE CONSEQUENCES OF WRONG POLICIES.

THE MAIN JUSTIFICATION FOR THE GREATER STRENGTH OF STERLING NOW IS NOT THE SAFETY NET SCHEME AS SUCH, BUT PARTLY THE GOVERNMENT'S CORRECTION OF THE ALARMING TREND OF MONETARY POLICY LAST SUMMER AND PARTLY THE CORRECTION OF EXAGGERATED PESSIMISM LAST OCTOBER. BUT JUST AS IT WAS WRONG THEN TO EXTRAPOLATE THE POUND'S WEAKNESS IN A STRAIGHT LINE TO EARLY EXTINCTION, SO IT WOULD BE WRONG NOW TO EXTRAPOLATE THE IMPROVING TONE ON A STRAIGHT-LINE TO SUNLIT UPLANDS.

NONE OF THE FUNDAMENTAL PROBLEMS OF THE BRITISH ECONOMY HAVE CHANGED. INDEED, IN ONE IMPORTANT WAY THEY ARE AUGMENTED. IF, AS APPEARS TO BE THE INTENTION, THE GOVERNMENT HAS BEEN CONSTRAINED BY THE CREDITOR GOVERNMENTS OF THE GROUP OF TEN COUNTRIES PUTTING UP THE \$3,000M SAFETY NET TO UNDERTAKE TO COVERT THE EXISTING OFFICIAL BALANCES INTO FOREIGN CURRENCY BONDS WHICH WILL THEN BE REPAID IN CASH WITHIN TEN YEARS, THE UNITED KINGDOM WILL HAVE TO EARN AN EXTRA \$3,800M OR SO IN BALANCE OF PAYMENTS SURPLUSES OVER THAT DECADE.

IF THIS EXTRA BALANCE OF PAYMENTS SURPLUS ON CURRENT ACCOUNT IS ACHIEVED, ABOUT A THIRD OF 1 PERCENT OF NATIONAL OUTPUT THAT WOULD OTHERWISE HAVE BEEN AVAILABLE EACH YEAR FOR INVESTMENT OR CONSUMPTION AT HOME WILL BE FORFEIT. THIS IS NOT IN ITSELF A LARGE AMOUNT; BUT EVEN SMALLER AMOUNTS HAVE CAUSED DIFFICULTY IN THE PAST.

IF THE EXTRA SURPLUS IS NOT ACHIEVED THEN THE REPAYMENTS OF THE CONVERTED STERLING BALANCES WILL HAVE TO BE FINANCED BY OTHER BORROWING ABROAD; AND THAT OTHER BORROWING MAY OR MAY NOT TURN OUT TO BE LESS ONEROUS THAN THE FORM OF FINANCE PROVIDED BY THE STERLING BALANCES THEMSELVES. IN OTHER WORDS, THE COURSE ON WHICH THE PRIM

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MINISTER HAS EMBARKED IS RIGHT, BUT STONY.

THE BASLE AGREEMENT IS THUS ANYTHING BUT AN OCCASION FOR RELAXATION, EXCEPT PERHAPS RELAXATION OF TENSION. IT ACTUALLY INCREASES, ALBEIT MODESTLY, THE BALANCE OF PAYMENTS SURPLUSES WE SHALL NEED TO EARN OVER THE NEXT TEN YEARS; AND THAT COST CANNOT JUST BE WRITTEN OFF AS YET ANOTHER CHARGE AGAINST THE ALREADY HEAVILY EAR-MARKED FRUITS OF THE NORTH SEA.

FOR THIS REASON GOVERNMENTS WILL HAVE TO RESIST NOT MERELY THE TEMPTATION TO EASE FISCAL AND MONETARY RESTRAINTS ON SPENDING, BUT ALSO THE TEMPTATION TO ALLOW THE POUND TO APPRECIATE TOO STRONGLY IF AND WHEN RETURNING CONFIDENCE AND THE EXPECTED IMPROVEMENT IN THE CURRENT ACCOUNT PROMOTES SUCH A TENDENCY. IF SOMETHING LIKE \$3,800M IN FOREIGN EXCHANGE IS GOING TO BE NEEDED BY THE MID-'80S TO PAY OFF CONVERTED STERLING BALANCES, THEN EXTRA RESERVES MUST BE BUILT UP TO THAT LEVEL OVER THE INTERVENING YEARS. OTHERWISE MR. CALLAGHAN'S SUCCESSFUL DIPLOMACY AND PRESIDENT FORD'S AND CHANCELLOR SCHMIDT'S ACTS OF FAITH WILL BE BETRAYED.

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THE GUARDIAN

ONE LAST CHANCE TO END THE CURSE

THE "CURSE OF THE STERLING BALANCES," AS MR. CALLAGHAN VIVIDLY PUT IT LAST AUTUMN, HAS BEEN LIFTED. MONDAY'S BASLE AGREEMENT IS A CONSIDERABLE DIPLOMATIC--AND POLITICAL--TRIUMPH FOR THE GOVERNMENT. IT REPRESENTS A MAJOR VOTE OF CONFIDENCE IN BRITAIN'S ECONOMIC POLICY, AS ADJUSTED BY MR. HEALEY LAST MONTH. THE AMOUNT THAT WILL BE AVAILABLE TO BRITAIN UNDER THE NEW STANDBY IS MORE THAN 3/4 THE SUM WHICH WAS OFFERED BY THE INTERNATIONAL MONETARY FUND AFTER THE ENDLESS HAGGLING OF THE AUTUMN. THERE IS LITTLE DOUBT THAT THE PAINFUL BARGAINING WITH THE FUND

WAS AN ESSENTIAL PART OF THE NEGOTIATIONS OF THE PRESENT LOAN: WITHOUT IT, FOR EXAMPLE, THE US ADMINISTRATION MIGHT HAVE FOUND IT MUCH HARDER TO OVERCOME ITS INITIAL OPPOSITION. BUT THE NEW AGREEMENT MAKES THE DISCUSSIONS WITH THE FUND LOOK MUCH MORE WORTHWHILE THAN DID THE RATHER GRUDGING WAY IN WHICH THE IMF'S OWN LOAN APPEARED TO BE OFFERED.

IN ITSELF, THE NEW BASLE AGREEMENT AVOIDS THE MOST OBVIOUS MISTAKES OF ITS PREDECESSORS. THE 1968 SCHEME TO
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STABILISE THE STERLING BALANCES OFFERED OFFICIAL HOLDERS OF STERLING FRUIT CAKE WITH JAM ON IT. THEY WERE GIVEN AN EXCHANGE RATE GUARANTEE ON MOST OF THEIR HOLDINGS; BUT THEY STILL CONTINUED TO BE PAID THE HIGH RATES OF INTEREST WHICH WERE PAID ON GOVERNMENT SECURITIES, PARTLY IN ORDER TO OFFSET THE IMAGINED EXCHANGE RISK. THE PRESENT ARRANGEMENT IS SIMPLY TO OFFER THE BALANCE HOLDERS THE OPTION OF CONVERTING THEIR STERLING INTO A NEW SECURITY, WHICH WILL BE DOMINATED IN FOREIGN CURRENCY. THE 1968 BASLE AGREEMENT MADE THE FURTHER MISTAKE OF INSISTING ON LOCKING OFFICIAL HOLDERS INTO STERLING FOR AN AGREED PERIOD. THIS INVOLVED MR. HAROLD LEVER IN A PROTRACTED AND COMPLICATED BOUT OF NEGOTIATIONS WITH THE COUNTRIES OF THE OLD STERLING AREA. THE PRESENT ARRANGEMENT HAS THE ADVANTAGE OF SIMPLICITY. IT WAS ALWAYS CLEAR THAT THE BIG OPEC HOLDERS OF STERLING WOULD BE DEEPLY UNHAPPY ABOUT ANY ATTEMPT TO LOCK THEM INTO STERLING. THE NEW ARRANGEMENT LEAVES THE CHOICE TO THEM: THEY CAN TAKE IT OR LEAVE IT AND THEY MAY VERY WELL DECIDE TO STAY.

FINALLY, BEHIND THE NEW AGREEMENT IS A GENERAL RECOGNITION THAT THERE SHOULD BE "ONE TRY MORE, AND THIS THE LAST." THE INTERNATIONAL COMMUNITY HAS HAD ENOUGH OF BRITAIN'S LINGERING ATTEMPTS TO KILL OFF STERLING'S RESERVE ROLE. THE OUTCOME OF THE LAST ATTEMPT WAS THAT IT FLOURISHED MORE THAN EVER: AFTER THE 1968 BASLE AGREEMENT, FOREIGN OFFICIAL HOLDINGS OF STERLING ROSE BRISKLY. THIS TIME, THERE IS TO BE A DIPLOMATIC INITIATIVE BY THE BRITISH GOVERNMENT TO TELL OTHER COUNTRIES TO KEEP THEIR RESERVES IN SOMETHING ELSE. AS FOR THE PRIVATE BALANCES, THE AUTHORITIES RECKON THAT THEY CAN ALWAYS BE DISCOURAGED FROM INCREASING BY THE OFFER OF LESS ATTRACTIVE INTEREST RATES.

BUT IT IS ON THE ABILITY OF FUTURE BRITISH GOVERNMENTS TO RESIST THE TEMPTATION TO WELCOME AN INFLOW INTO STERLING--AS THE PRESENT GOVERNMENT DID WITH OPEN ARMS IN 1974--THAT THE ULTIMATE SUCCESS OF MONDAY'S PACT WILL BE
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JUDGED. IF WE WERE TOMORROW IN THE POSITION WE FACED AFTER THE 1973 OIL PRICE RISE, WITH A HUGE CURRENT ACCOUNT DEFICIT, A CLEAR NEED TO CUT LIVING STANDARDS SOONER OR LATER TO ADJUST TO IT, AND A BRISK INFLOW INTO STERLING TO FOOT THE BILL--IF ALL THAT RECURRED, HOW WOULD WE BEHAVE? WOULD WE STERNLY TURN THE OPEC MONEY AWAY, AND CHOP BACK LIVING STANDARDS IMMEDIATELY? OR WOULD WE SAY, REASONABLY ENOUGH, THAT WE WANTED TO TRY TO SHIFT RESOURCES INTO THE BALANCE OF PAYMENTS GRADUALLY, AND THAT WE WOULD TAKE ADVANTAGE OF THE BUILD-UP OF STERLING BALANCES TO DO SO? UNTIL WE HAVE FACED SUCH A TEST AGAIN AND CHOSEN BETTER, THE CURSE OF THE BALANCES WILL NOT HAVE BEEN EXORCISED ONCE AND FOR ALL.

THE DAILY TELEGRAPH

THE PRODIGAL DEBTOR

CHANCELLOR HEALEY IS A MAN OF INFINITELY SANGUINE TEMPERAMENT. HE WOULD KILL THE FATTED CALF TO CELEBRATE THE HOME-COMING OF A BOUNCED CHEQUE. THERE IS ONLY ONE

HE UNFURLED WITH SUCH PRIDE YESTERDAY: AND THAT IS THAT THERE IS NOT MORE TO DEPLORE ABOUT IT. IN ONE RESPECT, AND IN ONE RESPECT ONLY, IT IS AN IMPROVEMENT ON THE BASLE AGREEMENT OF 1968. THAT AGREEMENT, PRESENTED AT THE TIME AS THE SUMMIT OF MR. HAROLD LEVER'S NEGOTIATING SKILL, OFFERED TO FOREIGN STERLING DEPOSITORS BOTH A RATE OF IN-

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TEREST APPROPRIATE FOR A COMPANY WITHIN SIGHT OF RECEIVER-SHIP, AND A GUARANTEE AGAINST CAPITAL LOSS. ITS SUCCESSOR OFFERS ONE OR THE OTHER, BUT NOT BOTH.

THE HOLDERS OF OFFICIAL FOREIGN STERLING BALANCES HAVE THE ASSURANCE THAT THEY WILL NOT--FOR A TIME, AT LEAST--BE FACED WITH A RECURRENCE OF THEIR PLIGHT LAST SUMMER, WHEN THEY COULD ONLY SELL THEIR HOLDINGS ON A MARKET IN COLLAPSE. THEY WILL THEREFORE HAVE EVERY INDUCEMENT TO CONTINUE MEANWHILE TO ENJOY THE USURIOUS INTEREST RATES THE BRITISH GOVERNMENT IS OBLIGED TO PAY THEM. THE CLAIM THAT THIS ARRANGEMENT WILL "REDUCE THE VULNERABILITY OF THE BRITISH ECONOMY TO EXTERNAL FACTORS BEYOND ITS CONTROL" IS MEANINGLESS. IF FOREIGNERS CONCLUDE THAT WE ARE INCAPABLE OF REDUCING DOMESTIC INFLATION TO INTERNATIONALLY COMPETITIVE LEVELS, THEY WILL SELL, AND THE EXCHANGE RATE WILL DECLINE.

IT IS, HOWEVER, THE OPPOSITE RISK WHICH REPRESENTS THE GREATEST MEDIUM-TERM ANXIETY. MR. HEALEY SAYS THE DEAL WILL ENABLE US TO ACHIEVE "AN ORDERLY REDUCTION" IN STERLING'S RESERVE ROLE. SO WE HAVE OFTEN BEEN TOLD. THERE IS NOTHING AT ALL TO ENSURE THAT THIS TIME IT WILL REALLY HAPPEN. ON THE CONTRARY, BY REDUCING THE POSSIBILITY OF A

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DISORDERLY MARKET, THIS AGREEMENT, LIKE ITS PREDECESSOR, SEEMS PURPOSE-BUILT TO GENERATE A NEW ACCUMULATION OF STERLING BALANCES IF AND WHEN OUR PAYMENTS BEGIN TO MOVE INTO SURPLUS. THEN WE SHALL NO DOUBT BE TOLD THAT WHAT IS HAPPENING IS NOT A BUILD-UP OF STERLING BALANCE, BUT A "PHASED ADJUSTMENT TO A CHANGE IN COMMODITY PRICES"--AS WE WERE IN 1974 AND 1975. ALL IN ALL THIS IS ANOTHER TYPICALLY SHORT-SIGHTED PRODUCT OF THE FERTILE BRAIN OF MR. HAROLD LEVER. IT IS A FITTING PRELUDE TO HIS NEXT ASSIGNMENT AS THE PURVEYOR OF SUBSIDIES FOR THE ASSEMBLY OF ITALIAN MOTOR-BIKES AT MERIDEN.

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